

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR		X		
4	D/ICS				
5	DDI				
6	DDA		X		
7	DDO		X		
8	DDS&T		X		
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO				
20	/ECON		X		
21	NESA/DI		X		
22	NIO/USSR		X		
23	NIO/NESA		X		
24	SUSPENSE				
		Date			

Remarks

23 D/SOVA

24 OGI/DI

25 OEA/DI

Date

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X

Executive Secretary

6 Feb 85
Date

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

Executive Registry	
85-	350/2

DD/A Registry
SS-0466

February 4, 1985

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(With Confidential Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF
OF STAFF
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT: Senior Interdepartmental Group on
International Economic Policy (SIG-IEP)

Attached are the SIG-IEP Minutes for the January 24, 1985 meeting.

Edward J. Stucky

Edward J. Stucky
Acting Executive Secretary

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SENIOR INTERDEPARTMENTAL GROUP ON INTERNATIONAL ECONOMIC POLICY

January 24, 1985
11:00 a.m.
Roosevelt Room

Attendees:

Treasury

Secretary Regan, Chairman
David C. Mulford
Ronald E. Myers

OMB

Joseph Wright
Alton G. Keel

NSC

Roger Robinson, Executive Secretary
David Wigg

CIA

David Low

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OVP

G. Phillip Hughes

USTR

Ambassador Smith
James Murphy

State

Secretary Shultz
W. Allen Wallis

Energy

Jan W. Mares
George Bradley

Defense

Richard Perle
James A. Kelly

CEA

William Niskanen

Agriculture

Secretary Block

Transportation

Matt Scocozza

Commerce

Secretary Baldrige
Lionel H. Olmer

OPD

Jack Svahn
Roger Porter

U.S.-Japan Economic Issue

The Chairman asked Ambassador Smith (USTR) to report on the U.S.-Japan economic issue.

Ambassador Smith noted that the Japan IG had met several times and was making good progress. A message had been sent to the Japanese from Secretary Shultz. Some meetings had taken place already with business groups and some staffers and Members of Congress. The SIG would be informed before more formal contacts are initiated with the Congress. An initial meeting with Japanese counterparts was set for

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next week in Tokyo followed immediately by telecommunications sector discussions. They had decided to concentrate on the four sectors already agreed and would add others later as appropriate. A scope paper for the delegation headed by Allen Wallis would be ready shortly.

Secretary Shultz suggested a somewhat different approach is necessary, concentrating on the Nakasone/Abe commitment to the President to seriously address trade issues. While important that sector groups get going, key to success will be active involvement of Nakasone/Abe. Wallis group should seek agreement on basic objectives and organization for negotiations, making clear to Japanese officials and press Japan's stake in a positive outcome. U.S. payoff must not be seen as barrier removal, but rather increased sales.

Secretary Shultz sees several time markers to measure progress, including the Wallis trip next week, the regular Cabinet Group meeting, and Abe's visit to Washington in April, culminating in the Bonn Summit. Sector teams should meet by March, before Abe visit, with reports channelled through State Department. Wants positive results by Bonn Summit. Believes the SIG-IEP is good place to monitor progress and wants another SIG discussion before the March meetings. Clear need to keep structure of talks focused on Nakasone/Abe/Shultz.

Ambassador Smith indicated that all IG members supported need to focus on high-level Japanese commitment.

Secretary Regan asked about automobile voluntary restraint agreement and need to weave VRA into this negotiating schedule. Secretary Baldrige noted that a joint CCCT/TPC on VRA's is scheduled for next week. Doesn't disagree with focus on Nakasone/Abe. Asked whether four sectors had been agreed to by Japan and urged a speed-up in U.S. preparations. Particularly concerned that discussions with U.S. industry will take time and that specific objectives are needed.

It was agreed Japanese had publicly supported the four sectors. Secretary Regan noted some questions had been raised about combining telecommunications and electronics sectors, but believes they are closely related. Ambassador Smith reported that U.S. industry wants to combine those two sectors. Although it may lead to bureaucratic difficulties for the Japanese, such a combination is logical because of technological overlap. As USG has devised mechanism for combining high-tech sectors, thought it appropriate. Provided more details on discussions with individual industry groups, noting attempt to use existing 16 advisory groups. Agrees process will take time, but believes real progress being achieved.

Secretary Baldrige asked if Wallis meeting focusing on objectives or organization. Ambassador Smith responded there is need to ensure Japanese understand process being proposed, goals being sought, and schedule. Under Secretary Wallis noted Japanese

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not viewing process as we, and may raise own issues, including unitary tax and cargo airline questions. Secretary Baldrige expressed concern about time wasted discussing open U.S. market. Secretary Shultz thought Japanese questions could be handled rapidly and may need to be discussed so Japanese not in difficult position. However, they are facing same tight time schedule imposed at Nakasone/Reagan meeting. Secretary Regan noted that another state recently announced progress on unitary tax and Assistant Secretary Mulford noted unitary tax had been fully addressed during yen/dollar talks.

In response to Secretary Baldrige's question regarding use of leverage, Secretary Regan noted President had explicitly mentioned to Nakasone growing Congressional pressure for trade action.

Report on U.S.-USSR Working Group of Experts Meeting

Under Secretary Olmer reported on his meetings in Moscow, recounting the history of President's support for the talks. Mr. Olmer identified to Soviets trade areas that could not be discussed, including dual-use technology, or could only be negotiated if Soviets met preconditions regarding human rights and emigration. Clear progress made on remaining trade area in atmosphere of free exchange. Soviets refrained from polemics and made only marginal reference to contract sanctity, reliability of supply, and emigration. Agreement was reached that Soviets prepared to meet at Cabinet level, recognized the mutual benefits of trade, and were prepared to accept bids from U.S. firms. Soviets will also hold trade talks with U.S. private sector group regarding various projects and have authorized reinstatement of U.S. commercial seminars that Soviet officials can attend. All agency members of delegation support conclusion that SIG-IEP recommend to President that a Cabinet-level joint meeting be held in the near future.

Assistant Secretary Perle (Defense) felt that recommendation was reasonable. However, concerned that process could fuel allies' concerns that the U.S. "turning on" at will trade with Soviets, thus undercutting difficult progress achieved to control high-tech exports. Feared tendency of allies to view publicity about recent meetings as opening floodgate to their exports to Soviets. Recommended consultations with allies and high-level public statement to reiterate our policy on high-tech exports.

Secretaries Shultz and Baldrige agreed with Perle's recommendations. Secretary Shultz believes it important to emphasize what has and what has not changed in U.S. policy. Recent talks are a political signal and represent increased U.S.-USSR trade over immediate past, but controls over dual-use technology remain much tighter than five years ago. Secretary Baldrige agreed that amount of trade involved is minor and is essentially a political gesture. There was support for joint Commerce/Defense Department presentation at upcoming COCOM meeting. The SIG agreed to recommend to President a Cabinet level meeting sometime in the spring.

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King Fahd Visit: Economic Issue

Given time constraints, Chairman agreed that Common Fund be considered at next meeting. Ambassador Smith reported on interagency process addressing Saudi petrochemical imports issue which might arise during King Fahd's upcoming visit. Saw it as extremely complex and politically difficult issue, possibly a major topic of 1980s. Hopes to have an interagency-cleared paper by February 4. Substance of U.S. position to note that no objections have yet been raised so no real discussion now necessary with the Saudis. However, as major issue with national security, trade, and energy implications could be addressed again by SIG-IEP. The Chairman believed it was important to check President's schedule and have papers prepared 48 hours before his briefing. Doubted King would raise issue with President in any detail. Also expressed concern as to who in U.S. Government would express the very legitimate interest U.S. consumer has in lower petrochemical prices.

Dr. Mulford shared concern about consumer's interests and reported that Saudis had expressed to him recently very strong views on issue, noting their trade deficit with U.S., oil price difficulties, U.S. direct investment in Saudi Arabia, the lack of foreign exchange restrictions, and that U.S. partners participate in Saudi petrochemical industry. He believed that if progress was made on the Middle East peace initiative, Saudi petrochemicals would become a particularly important issue.

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